



MAY - 2 1997

Memorandum

Date

Michael Mangano

From

for June Gibbs Brown
Inspector General

Subject

Review of Medicare Contractor's Pension Segmentation, Rocky Mountain Health Care Corporation (A-07-96-01 185)

To

Bruce C. Vladeck
Administrator
Health Care Financing Administration

This memorandum is to alert you to the issuance on May 6, 1997 of our final report. A copy of the report is attached.

The report identifies about \$2.7 million in pension assets at Rocky Mountain Health Care Corporation (Rocky Mountain) that should be added to the pension assets attributable to the Medicare segment of its business as of January 1, 1995. Copies of the report have been distributed to your staff for adjudication of the finding.

Our review showed that Rocky Mountain correctly identified Medicare segment pension assets of \$2,993,217 as of 1986. However, Rocky Mountain's update of the Medicare segment from 1986 to 1995 understated segment assets by \$2,743,438. This understatement occurred primarily because Rocky Mountain omitted certain benefit payments and misidentified Medicare pension plan participants. We are recommending that Rocky Mountain increase the January 1, 1995 assets of the Medicare segment by \$2,743,438.

The Auditee was unable to provide a definitive response to our report within the 75 days granted to them for providing a response (30 initial days plus a requested 45 day extension). The Health Care Financing Administration, Office of the Actuary, reviewed our report and agreed with our analysis and resultant recommendation.

We will be working with your staff to address the complicated issues addressed in this report.

For further information, please contact:

Barbara A. Bennett
Regional Inspector General
for Audit Services, Region VII
(816) 426-3591

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE CONTRACTOR'S
PENSION SEGMENTATION, ROCKY
MOUNTAIN HEALTH CARE
CORPORATION**



JUNE GIBBS BROWN
Inspector General

MAY 1997
A-07-96-01185



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN A: 07-96-01185

Ms. Pat Miller
Manager of Cost Accounting
Rocky Mountain Health Care Corporation
700 East Broadway
Denver, Colorado 80273

Dear Ms. Miller:

This report provides you with the results of the Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Medicare Contractor's Pension Segmentation, Rocky Mountain Health Care Coloration*. The purpose of our review was to evaluate Rocky Mountain Health Care Corporation's (Rocky Mountain) compliance with the pension segmentation requirements of its Medicare contracts.

Our review showed that Rocky Mountain correctly identified Medicare segment pension assets of \$2,993,217 as of 1986. However, Rocky Mountain's update of the Medicare segment assets from Plan Year 1986 to Plan Year 1995 understated segment assets by \$2,743,438. This understatement primarily occurred because Rocky Mountain omitted certain benefit payments and misidentified plan participants.

In 1989 Blue Cross and Blue Shield of Colorado (Colorado), Blue Cross and Blue Shield of New Mexico (New Mexico), and Blue Cross and Blue Shield of Nevada (Nevada) merged into the Rocky Mountain Health Care Corporation. Our review included Colorado's compliance with segmentation requirements prior to the merger. For clarity, we used the current name of Rocky Mountain in this report for referring to the company prior to 1989. We reviewed New Mexico's compliance with Medicare segmentation requirements prior to the merger in a separate audit (CIN: A-07-96-01195).

We recommend that Rocky Mountain increase the January 1, 1995 assets of the Medicare segment by \$2,743,438. The Auditee was unable to provide a definitive response to our report within the 75 days granted to them for providing a response (30 initial days plus a 45 day extension). The auditee's letter is included as Appendix B.

INTRODUCTION

Rocky Mountain, and its predecessor Colorado, administered Medicare under both fixed price and cost reimbursement contracts since 1966. In claiming costs, contractors were to follow cost reimbursement principles contained in the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

Since its inception, Medicare paid a portion of the annual contributions made by contractors to their pension plans. These payments represented allowable pension costs under the FPR and/or the FAR. In 1980, both the FPR and Medicare contracts incorporated CAS 412 and 413.

The CAS 412 regulates the determination and measurement of the components of pension costs. It also regulates the assignment of pension costs to appropriate accounting periods. The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

The Health Care Financing Administration (HCFA) incorporated segmentation requirements into Medicare contracts starting with Fiscal Year 1988. The contractual language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment.

Rocky Mountain's contract required (1) computing the Medicare segment's actuarial liability, (2) determining the ratio of the Medicare segment's actuarial liability to the total plan actuarial liability (asset fraction), (3) allocating a portion of total pension assets as of 1986 based on the above ratio, (4) updating Medicare pension assets annually, and (5) assessing if Medicare's pension costs should be separately calculated.

The Medicare contracts identify a Medicare segment as:

. . . any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

- 1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or*
- 2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract.*

The contracts also provide for separate identification of the pension assets of the Medicare segment. The identification involves the allocation of assets to the Medicare segment as of

the first pension plan year after December 31, 1985 in which salary criterion was met. The allocation was to use the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan, as of the later of the first day of the first plan year starting after December 31, 1980, or the first day of the first pension plan year following the date such Medicare segment first existed.

To ensure contractors developed and maintained the data necessary for segmentation calculations, HCFA distributed a pension cost questionnaire to contractors in 1989. Rocky Mountain's questionnaire response of June 20, 1989 identified total pension assets of \$21,585,493 and Medicare segment assets of \$2,993,217 as of January 1, 1986. Rocky Mountain also concluded that separate valuations for the Medicare segment were required.

Rocky Mountain participates in the National Retirement Program administered by the Blue Cross/Blue Shield National Employee Benefits Administration (NEBA). The Watson Wyatt Worldwide, NEBA's actuarial firm, played a major role in the preparation of Rocky Mountain's questionnaire response.

OBJECTIVE, SCOPE AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine Rocky Mountain's compliance with pension segmentation requirements of its Medicare contract. Achieving the objective did not require a review of Rocky Mountain's internal control structure. The audit addressed Rocky Mountain's initial determination of pension assets for its Medicare segment and later updates. Our review covered January 1, 1981 to January 1, 1995.

This review was performed in conjunction with our audits of unfunded pension costs (CIN: A-07-96-01198) and pension costs claimed for Medicare reimbursement (CIN: A-07-96-01197) and our audits of New Mexico's pensions segmentation (CIN: A-07-96-01195, unfunded pension costs (CIN: A-07-96-01 199) and pension costs claimed for Medicare reimbursement (CIN: A-07-96-O 1196). The information obtained and reviewed during those audits was also used in performing this review.

We reviewed Rocky Mountain's identification of the Medicare segment as of January 1, 1988 and traced the organizational lineage back to 1981. We also reviewed Rocky Mountain's computation of the asset fraction and its update of Medicare assets from January 1, 1986 to January 1, 1995.

In performing the review, we used information provided by NEBA and NEBA's pension actuary. The information included liabilities, normal costs, contributions, earnings, and expenses. We reviewed Rocky Mountain's accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Form 5500s. Using these documents, we calculated Medicare segment assets as of January 1, 1995. The HCFA pension actuarial staff reviewed our methodology and calculations.

Site work at Rocky Mountain's corporate offices in Denver, Colorado was performed during June 1996. We performed subsequent audit work in our OIG, OAS Jefferson City, Missouri field office.

FINDING AND RECOMMENDATION

MEDICARE ASSETS AS OF JANUARY 1, 1986

Rocky Mountain calculated an asset fraction of 13.8668 percent as of January 1, 1981. We determined that Rocky Mountain correctly identified the organizational components and participants of the Medicare segment as of 1981. Accordingly, Rocky Mountain correctly calculated the 1981 asset fraction, which when applied to the total company assets as of January 1, 1986 correctly established the Medicare segment's asset base of \$2,993,217.

MEDICARE ASSET BASE AS OF JANUARY 1, 1986 UPDATED TO JANUARY 1, 1995

Rocky Mountain's methodology in updating the Medicare segment assets from January 1, 1986 to January 1, 1995 understated the segment assets by \$2,743,438. This understatement primarily occurred because Rocky Mountain omitted certain benefit payments and misidentified participants.

Updating Segment Assets

As of January 1, 1995, Rocky Mountain determined Medicare segment assets of \$2,192,623. We identified Medicare segment pension assets of \$4,936,061 as of January 1, 1995. The increase of \$2,743,438 resulted from: (1) assigning pension contributions equitably to the Medicare segment (\$193,435 increase), (2) adjusting benefit payments (\$524,678 decrease), (3) adjusting for participants that moved in and out of the Medicare segment (\$2,433,651 increase), and (4) adjusting the merged assets from New Mexico and Nevada (\$100,947 increase), and (5) revising earnings and expenses (\$540,083).

Pension Contributions

Rocky Mountain's update methodology did not equitably assign pension contributions to the Medicare segment. As a result, Rocky Mountain understated Medicare segment assets by \$193,435. The understatement occurred primarily because Rocky Mountain assigned contributions to the segment equal to the segment's computed pension costs.

Rocky Mountain's consulting actuary assigned a portion of the 1993 and 1994 contributions to the Medicare segment based on its computation of the separately calculated pension costs. Our changes to the asset base changed the computation of the segment's pension cost as well as the assignment of the contribution.

Additionally, for years 1986 and 1993, Rocky Mountain's contributions exceeded the required funding of the CAS pension cost. The excess contributions (or prepayments) are carried forward with interest to fund future CAS pension costs. We considered these excess contributions in our computations and made prepayment adjustments (\$74,803 in 1987 and \$82,393 in 1994) to fund the CAS pension costs of the Medicare segment.

Using the pension costs as calculated by the HCFA Office of the Actuary (CIN: A-07-96-01197), we assigned an equitable portion of the total company contributions to the Medicare segment, based on the ratio of the Medicare segment CAS funding target to the total company CAS funding target (see Appendix A). Our calculations increased Medicare segment assets by \$193,435.

Benefit Payments

Rocky Mountain omitted benefit payments to certain Medicare segment retirees. We identified the benefits paid and used these payments in updating the Medicare segment assets shown in Appendix A. This resulted in a net decrease of \$524,678 in the Medicare segment assets.

Participant Transfers

Rocky Mountain correctly identified the Medicare segment organizational components and cost centers. However, Rocky Mountain's updates incorrectly identified plan participants in the organizational components and cost centers. Some individuals were considered nonsegment participants and should have been considered segment participants. Some individuals were considered segment participants and should have been considered nonsegment participants.

Since the identification of the segment participants was incorrect, transfers (representing the movement into and out of the segment each year) in the updates were also incorrect. The following table compares computations of transfer amounts:

Transfer Adjustments to the Medicare Segment

<u>Year</u>	<u>Rocky Mountain</u>	<u>OIG</u>
1986	\$(818,974)	\$(96,467)
1987	190,014	(251,442)
1988	(118,226)	30,419
1989	(48,783)	(12,017)
1990	(338,773)	(194,286)
1991	448,331	14,131
1992	(170,057)	(123,410)
1993	(1,807,188)	64,888
1994	<u>(1,863,318]</u>	<u>(1,525,139)</u>
Total	<u>\$(4,526,974)</u>	<u>\$(2,093,323]</u>

We corrected the identification of the segment participants and transfer amounts in updating the Medicare segment assets (see Appendix A). Our computation resulted in a net increase of \$2,433,651 (\$4,526,974 less \$2,093,323) in the Medicare segment assets.

Merged Assets

As stated previously, in 1989 Blue Cross and Blue Shield of Colorado (Colorado), Blue Cross and Blue Shield of New Mexico (New Mexico), and Blue Cross and Blue Shield of Nevada (Nevada) merged into the Rocky Mountain Health Care Corporation. Thus, we merged the pension assets of New Mexico and Nevada into Rocky Mountain's pension assets. We based asset amounts on the results of our review of New Mexico's compliance with segmentation requirements (CIN: A-07-96-01195) resulting in an increase of \$100,947.

Earnings and Expenses

Rocky Mountain's update methodology allocated investment earnings and expenses to the Medicare segment based on a ratio of segment assets to total company assets. Because Rocky Mountain's asset amounts were incorrect, it understated the segment's earnings and expenses for each year of the update. Except for correcting asset amounts, as previously described, we used Rocky Mountain's allocation methodology in our update and increased the Medicare segment assets by \$540,083.

Recommendation:

We recommend that Rocky Mountain:

Increase the pension assets of the Medicare segment by \$2,743,438 as of January 1, 1995.

Auditee Response

The Auditee stated they were unable to provide a definitive response to our report within the 75 days granted to them for providing a response (30 initial days plus a 45 day extension). They also stated they would continue their evaluation of the draft audit report and will work with us and the Contracting Officer to bring these matters to a prompt and fair resolution.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified on the following page. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Sincerely,

A handwritten signature in black ink, reading "Barbara A. Bennett". The signature is written in a cursive style with a large initial 'B'.

Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII

HHS Action Official:

Ms. Mary K. Smith
Regional Administrator, Region VIII
Health Care Financing Administration
1961 Stout Street
Denver, Colorado 80294-3538

Enclosures

ROCKY MOUNTAIN HEALTH CARE CORPORATION

CIN: A-07-96-01185

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1986 TO JANUARY 1, 1995

<i>Description</i>		<i>Total Company</i>	<i>Other Segment</i>	<i>Medicare</i>
<i>Assets January 1, 1986</i>	<u>1/</u>	<i>\$21,585,493</i>	<i>\$18,592,276</i>	<i>\$2,993,217</i>
<i>Contributions</i>	<u>2/</u>	<i>266,000</i>	<i>175,957</i>	<i>90,043</i>
<i>Prepayment</i>		<i>o</i>	<i>0</i>	<i>0</i>
<i>Earnings</i>	<u>3/</u>	<i>3,397,865</i>	<i>2,926,690</i>	<i>471,175</i>
<i>Benefits</i>	<u>4/</u>	<i>(936, 693)</i>	<i>(936,693)</i>	<i>o</i>
<i>Expenses</i>	<u>5/</u>	<i>(129, 726)</i>	<i>(111, 737)</i>	<i>(17,989)</i>
<i>Transfers</i>	<u>6/</u>	<i>o</i>	<i>96,467</i>	<i>(96,467)</i>
<i>Assets January 1, 1987</i>		<i>\$24,182,939</i>	<i>\$20,742,960</i>	<i>\$3,439,979</i>
<i>Contributions</i>		<i>o</i>	<i>0</i>	<i>0</i>
<i>Prepayment</i>	<u>7/</u>	<i>o</i>	<i>(74,803)</i>	<i>74,803</i>
<i>Earnings</i>		<i>1,159,648</i>	<i>991,103</i>	<i>168,545</i>
<i>Benefits</i>		<i>(849,310)</i>	<i>(849,310)</i>	<i>o</i>
<i>Expenses</i>		<i>(151, 647)</i>	<i>(129,606)</i>	<i>(22,041)</i>
<i>Transfers</i>		<i>o</i>	<i>251,442</i>	<i>(251,442)</i>
<i>Assets January 1, 1988</i>		<i>\$24,341,630</i>	<i>\$20,931,786</i>	<i>\$3,409,844</i>
<i>Contributions</i>		<i>o</i>	<i>0</i>	<i>0</i>
<i>Prepayment</i>		<i>o</i>	<i>0</i>	<i>0</i>
<i>Transfer from NM & NV</i>	<u>8/</u>	<i>6,985,741</i>	<i>6,284,789</i>	<i>700,952</i>
<i>Earnings</i>		<i>3,289,212</i>	<i>2,828,450</i>	<i>460,762</i>
<i>Benefits</i>		<i>(1, 646, 663)</i>	<i>(1, 646, 663)</i>	<i>o</i>
<i>Expenses</i>		<i>(151, 016)</i>	<i>(129, 861)</i>	<i>(21,155)</i>
<i>Transfers</i>		<i>o</i>	<i>(30,419)</i>	<i>30,419</i>
<i>Assets January 1, 1989</i>		<i>\$32,818,904</i>	<i>\$28,238,082</i>	<i>\$4,580,822</i>

ROCKY MOUNTAIN HEALTH CARE CORPORATION

CIN: A-07-96-01185

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1986 TO JANUARY 1, 1995

Description	Total Company	Other Segment	Medicare
Assets January 1, 1989	\$32,818,904	\$28,238,082	\$4,580,822
Contributions	0	0	0
Prepayment	0	0	0
Earnings	7,404,452	6,370,948	1,033,504
Benefits	(1,367,444)	(1,342,444)	(25, 000)
Expenses	(221,204)	(190,329)	(30,875)
Transfers	0	12,017	(12, 017)
Assets January 1, 1990	\$38,634,708	\$33,088,274	\$5,546,434
Contributions	0	0	0
Prepayment	0	0	0
Earnings	(979,446)	(838,836)	(140, 610)
Benefits	(1,499, 022)	(1,446,639)	(52,383)
Expenses	(203,402)	(174,201)	(29,201)
Transfers	0	194,286	(194,286)
Assets January 1, 1991	\$35,952,838	\$30,822,884	\$5,129,954
Contributions	0	0	0
Prepayment	0	0	0
Earnings	7,769,522	6,660,923	1,108,599
Benefits	(2,522, 034)	(2,267, 729)	(254,305)
Expenses	(196,011)	(168, 043)	(27, 968)
Transfers	0	(14,131)	14,131
Assets January 1, 1992	\$41,004,315	\$35,033,904	\$5,970,411

ROCKY MOUNTAIN HEALTH CARE CORPORATION

CIN: A-07-96-01185

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1986 TO JANUARY 1, 1995 -

Description	Total Company	Other Segment	Medicare
Assets January 1, 1992	\$41,004,315	\$35,033,904	\$5,970,411
Contributions	0	0	0
Prepayment	0	0	0
Earnings	1,584,272	1,353,595	230,677
Benefits	(1, 736, 101)	(1, 666, 631)	(69,470)
Expenses	(243,942)	(208,423)	(35,519)
Transfers	0	123,410	(123,410)
Assets January 1, 1993	\$40,608,544	\$34,635,855	\$5,972,689
Contributions	2,937,750	2,642,735	295,015
Prepayment	0	0	0
Earnings	4,042,306	3,447,765	594,541
Benefits	(1, 732, 668)	(1,395,993)	(336, 675)
Expenses	(328, 927)	(280,549)	(48,378)
Transfers	0	(64,888)	64,888
Assets January 1, 1994	\$45,527,005	\$38,984,925	\$6,542,080
Contributions	3,410,968	3,178,228	232,740
Prepayment	0	(82,393)	82,393
Earnings	261,366	223,336	38,030
Benefits	(3,485,426)	(3, 094, 614)	(390,812)
Expenses	(297, 109)	(253, 878)	(43,231)
Transfers	0	1,525,139	(1,525,139)
Assets January 1, 1995	\$45,416,804	\$40,480,743	\$4,936,061

ROCKY MOUNTAIN HEALTH CARE CORPORATION

CIN: A-07-96-01185

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1986 TO JANUARY 1, 1995

Description		Total Company	Other Segment	Medicare
Assets January 1, 1995		\$45,416,804	\$40,480,743	\$4,936,061
Assets Rocky Mountain	9/	\$45,416,804	\$43,224,181	\$2,192,623
Variance	10/	\$0	\$(2,743,438)	\$2,743,438

FOOTNOTES

- 1/ We reviewed Rocky Mountain's asset fraction calculation and determined that Rocky Mountain had correctly computed the 1981 asset fraction (13.8668 percent).
- 2/ We obtained total contribution amounts from IRS Form 5500 reports. We allocated the 1986 contribution to the Medicare segment based on the ratio of segment participants' normal costs and accrued liability to total company normal costs and accrued liability. Rocky Mountain used this same methodology. Rocky Mountain did not make contributions to the pension trust fund for years 1987 through 1992.
- 3/ Rocky Mountain provided earning amounts and we verified them to IRS Form 5500 reports. We allocated earnings to the Medicare segment based on the ratio of market value of Medicare assets to market value of total assets at the beginning of the year. Rocky Mountain used this same methodology.
- 4/ Rocky Mountain provided benefit payment amounts and we verified them to IRS Form 5500 reports. We used actual benefit payments for Medicare segment retirees.
- 5/ Rocky Mountain provided administrative expense amounts and we verified them to IRS Form 5500 reports. We allocated administrative expenses to the Medicare segment on the ratio of beginning of year market value of Medicare assets to

ROCKY MOUNTAIN HEALTH CARE CORPORATION

CIN: A-07-96-01185

STATEMENT OF MEDICARE PENSION ASSETS
JANUARY 1, 1986 TO JANUARY 1, 1995

beginning of year market value of total assets. Rocky Mountain used this same methodology.

- 6/ We identified participant transfers between segments by comparing annual participant valuation listings provided by Rocky Mountain. The listings contained the actuarial liability of each participant at year-end. Our transfer adjustment considered each participant's actuarial liability and the funding level of the segment from which the participant transferred. We calculated the funding level as the assets divided by the liabilities. If the funding level ratio was greater than one, we transferred assets equal to the participant's liability.*
- 7/ Rocky Mountain's 1986 contribution to the pension trust fund exceeded the CAS pension costs, thereby creating a prepayment credit. The prepayment remains unassigned and accumulates interest in the pension trust fund until needed to fund future CAS pension costs. We assigned the prepayment in proportion to the CAS pension costs.*
- 8/ We merged the pension assets of Blue Cross and Blue Shield of New Mexico and Blue Cross and Blue Shield of Nevada into Rocky Mountain's pension assets at year-end. We based asset amounts on the results of our review of New Mexico's compliance with segmentation requirements (CIN: A-07-96-01195). Blue Cross and Blue Shield of Nevada did not have a Medicare contract and thus was not subject to the segmentation requirements.*
- 9/ We obtained the total assets as of January 1, 1995 from Rocky Mountain's update of assets provided by its actuary.*
- 10/ The asset variance represents the difference between the OIG calculation of assets as of January 1, 1995 and the assets calculated by Rocky Mountain's actuary.*



January 27, 1997

Barbara A. Bennett
Regions] Inspector General
for Audit Services, Region VII
Department of Health and Human Services
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Dear Ms. Bennett:

Thank you for extending until January 27, 1997, the time for our response to the following draft audit reports:

CIN: A-07-96-0 1198 CIN: A-07-96-01 199
CIN: A-07-96-01 185 CIN: A-07-96-O 1195
cm: A-07-96-01 196 CIN: A-07-96-01 197


Those draft audit reports relate to the Office of Inspector General's audit of Blue Cross and Blue Shield of Colorado's and Blue Cross and Blue Shield of New Mexico's claimed pension costs, pension segmentation, and **unfunded** pension costs for Fiscal Years 1988 through 1995.

As you know, the proper treatment of pension costs pursuant to CAS 412 and 413 maybe the single most difficult government cost accounting issue, and there are complex interactions among the draft reports. Despite our best efforts, and those of our outside actuarial, legal and accounting consultants, we have not yet been able to complete our review and analysis of the issues raised in the draft reports. Accordingly, we are unable to provide you at this time with the definitive Plan responses that you have requested.

We understand from your letter of December 17, 1996, that you will not grant us a **further** extension at this time. Nonetheless, please be assured that we will continue our evaluation of the draft audit reports, and will work with your auditors and the Contracting Officer to bring these matters, and the related contract termination pension cost matters, to a prompt and fair resolution.

Thank you for affording us an opportunity to comment on the draft audit reports. We regret that we are unable to do so at this time.

Sincerely,



William P. Crossen
Chief Financial Officer